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Market Intelligence

HNI Corporation NYSE:HNI

Earnings Call

Tuesday, August 8, 2023 4:00 PM GMT

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Call Participants

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Marshall H. Bridges

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*Vice President of Investor
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ANALYSTS

Beryl Bugatch

Water Tower Research LLC

Gregory Burns

Reuben Garner

*The Benchmark Company, LLC,
Research Division*

Steven Ramsey

Thompson Research Group, LLC

Presentation

Operator

Good day, everyone, and welcome to the HNI Corporation Second Quarter Fiscal 2023 Results Conference Call.

[Operator Instructions]

I would now like to turn the conference over to Mr. Matt McCall. Please go ahead, sir.

Matthew Scott McCall

Vice President of Investor Relations & Corporate Development

Good morning. My name is Matt McCall. I'm Vice President, Investor Relations and Corporate Development for HNI Corporation. Thank you for joining us to discuss our second quarter fiscal 2023 results. With me today are Jeff Lorenger, Chairman, President and CEO; and Marshall Bridges, Senior Vice President and CFO. Copies of our financial news release and non-GAAP reconciliations are posted on our website. Statements made during this call that are not strictly historical facts are forward-looking statements, which are subject to known and unknown risks. Actual results could differ materially. The financial news release posted on our website includes additional factors that could affect actual results. The corporation assumes no obligation to update any forward-looking statements made during the call. I'm now pleased to turn the call over to Jeff Lorenger. Jeff.

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Thanks, Matt. Good morning, and thank you for joining us. Our second quarter results exceeded our expectations, demonstrating the momentum of our strategies, our market positions and our recent actions to streamline our businesses. On the call today, I will highlight 3 key topics. First, our profit transformation efforts in Workplace Furnishings are ahead of schedule and helped drive non-GAAP profit growth despite lower volume. Our Workplace Furnishings margins have been reset.

Second, since closing the Kimball International acquisition, we have become even more confident in the benefits of the combination. In addition, we have signed an agreement to divest Poppin and anticipate closing in the third quarter. Once closed, the exit will increase our projected attrition and unmask the strength of Kimball International's core business. And third, we put actions in place to support near-term profitability in residential building products while staying focused on our long-term strategic investments.

Following those highlights, Marshall will review our outlook. I will then conclude with some general closing commentary before we open the call to your questions. Moving to the first topic. Our profit transformation efforts in Workplace Furnishings are ahead of schedule as we grew non-GAAP profit despite lower volume. When compared to the prior year period and excluding the Kimball International acquisition, non-GAAP EPS grew 6% despite 15% lower organic sales. Non-GAAP gross margin expanded 270 basis points and non-GAAP operating margin expanded 150 basis points. The profit improvement was driven by our transformation plan in workplace furnishings. That plan remains unchanged and consists of 4 primary actions, which are driving sustained margin improvement.

First, we are driving increased productivity. Our productivity efforts have exceeded our near-term targets as reflected in our second quarter results, and we expect an even greater impact in the second half. We are also investing to make our operational footprint more resilient and efficient primarily through our new facility in Mexico. Our future results will greatly benefit from these investments as they mature.

Second, we have streamlined our cost structure. We continue to expect \$25 million of our previously announced cost savings initiatives to impact Workplace Furnishings this year. Third, we continue to simplify our business following our most attractive markets. The actions we took over the past year to divest our China business and rationalize our e-commerce offering are examples of simplification efforts that are currently improving our profitability. And fourth, our efforts to improve price costs continue to

provide a benefit. As a result of these actions, second quarter non-GAAP operating margin in Workplace Furnishings expanded 550 basis points to 8.5%, excluding the impact of the Kimball International acquisition.

That was the highest margin since the third quarter of 2019, and it was the fifth consecutive quarterly period of year-over-year non-GAAP profit improvement in workplace furnishings. Our profit transformation plan does not depend upon volume growth. However, we are encouraged by the demand trends in workplace furnishings. Segment orders for the first 6 months of 2023 grew approximately 3% year-over-year. We continue to see strong performance in the small to midsized customer segment, where we have an unmatched competitive position.

Organic orders from the SMB customer group were up approximately 10% during the first half, while orders from contract customers declined at a mid-single-digit rate over the same period. The improving workplace furnishings order rates reflect trends associated with employment growth with small-to-midsize offices, population shifts to secondary geographies and increased furniture events driven by the adoption of hybrid work models and expiring leases.

These trends all align with our strong market coverage and our product and price point breadth and depth, positions that will be further enhanced through our combination with Kimball International. Moving to my second topic. Since closing, we have become even more confident in the benefits of our combination with Kimball International. The addition of KII will strengthen our business. Together, we are strongly positioned to lead in the evolving workplace environment with an expanded presence in secondary geographies and leading positions in ancillary products. And the cultural fit between the organizations is strong and both sides are beginning to identify and unlock new opportunities for profit growth.

We now see the previously announced annual run rate synergy amount of \$25 million as a floor with strong potential for more. Additionally, we have signed an agreement to sell Poppin, which was acquired by KII in 2020. Based on trailing 12-month results, the sale of Poppin is estimated to increase annual operating profit by \$20 million, while reducing annual revenue by \$56 million. The divestiture is expected to be closed during the third quarter. Poppin's operating losses have masked the strength of KII's core businesses, which collectively generated an operating margin over 10%.

My third topic is we have put absence in place to support near-term profitability in residential building products, while we stay focused on our long-term strategic investments. Our Residential Building Products segment continues to face volume pressure in line with the general weakness in the broader housing market. In response to the volume declines, we have expanded our cost reduction efforts to support segment profitability, specifically, these actions will lower 2023 segment expenses by an additional \$5 million to \$10 million. When combined with our previous actions, our HNI wide cost reduction efforts now total \$40 million to \$45 million, up from the \$35 million previously announced, \$15 million to \$20 million, of which will impact residential building products this year. Our cost reduction efforts, along with the return of normal seasonality patterns will result in improved segment profitability beginning in the third quarter of this year.

In addition, recent demand trends have shown improvement. Second quarter orders in this segment decreased 16% versus second quarter of 2022. This is a significant improvement from the minus 37% in the first quarter of 2023. Furthermore, comps get easier in the second half of this year as we compare against the second half 2022 when orders were down 12%. Short term, notwithstanding the intermediate to long-term demand dynamics remain encouraging for this segment as we are well positioned for sustained revenue and profit growth. U.S. housing is undersupplied, demographic trends point to robust future construction growth and there are indications that renovation activity will accelerate as existing homeowners are less likely to relocate given the current mortgage environment with many having attractive lower interest rates.

In addition to strong market fundamentals, we have unique growth opportunities. We continue to invest in our initiatives aimed at expanding the market, including in the areas of category awareness, new product innovation, online capabilities and the expansion of our wholly owned installing distributor footprint. The market's strong fundamentals, our unique growth opportunities and our category-leading positions

point to the return of strong growth beyond 2023. I will now turn the call over to Marshall to discuss our outlook. Marshall?

Marshall H. Bridges

Senior VP & CFO

Thanks, Jeff. Let's start with demand where we have seen trends generally improve over the past quarter. In Workplace Furnishings, we expect organic revenue growth rates in the low single digits for the second half of 2023. That outlook is consistent with first half order patterns and excludes Kimball International. In Residential Building Products, we expect year-over-year declines to moderate in the second half due to lower prior year comparisons, improved trends in new construction and moving past the normalization of inventory in the channel. Specifically, we expect Residential Building Products revenue to decline at a rate in the high teens during the second half of 2023, with the fourth quarter declining at a slower rate than the third quarter.

Let's shift to the financial benefits expected from Kimball International. We expect KII to add \$290 million to \$320 million of revenue to the second half, excluding Poppin. We also project KII to add \$0.10 to \$0.15 to second half non-GAAP EPS, again, excluding Poppin. A few notes on that projection. First, it's based on our current view of purchase accounting, which is not yet final, second, it includes the benefits of synergies, which we expect will be at an annual run rate of \$10 million in the second half, and third, the non-GAAP EPS benefit is expected to be greater in the fourth quarter. Regarding Poppin, it will negatively impact non-GAAP EPS until the divestiture is finalized, which we expect to occur prior to the end of the third quarter. Specifically, we estimate Poppin will add \$7 million to \$9 million of revenue in the quarter with an expected operating loss of \$3.5 million to \$4 million.

I should note that Poppin will be included in our non-GAAP third quarter results like it was in the second quarter. All right. Let's shift the second half profit, we expect our profit transformation actions to continue to drive profit and margin improvement in our legacy Workplace Furnishings business. Those drivers and the net benefit of KII and Poppin that I just covered are expected to more than offset the negative impact from lower volume in residential building products that's being driven by the weaker housing market. Altogether, we expect profit growth in the second half of 2023 in the Workplace Furnishings segment and for HNI overall.

Let's now cover our third quarter outlook. We expect organic Workplace Furnishings revenue to be approximately flat to slightly up compared to the prior year. When including Kimball International and Poppin, we expect Workplace Furnishings revenue to be at a year-over-year rate in the low 40% range on a reported basis. In Residential Building Products, we expect revenue to decline at a rate in the low to mid-20% range versus the third quarter of 2022. We expect non-GAAP EPS to be modestly below third quarter 2022 levels, primarily due to lower volume in residential building products, the normalization of variable compensation and the impact of Poppin. We expect those negative factors to be partially offset by continued profit improvement in workplace furnishing and benefits from KII.

Shifting to the balance sheet. We ended the second quarter with debt-to-EBITDA of 2.3x as calculated under our existing credit agreements. However, the definition of governing debt and EBITDA will change if we repay our private notes. Under those new definitions, our leverage at the end of the second quarter would have been an estimated 1.6x. We had the capacity to repay those notes, which totaled \$100 million. Regardless of the definition, we have a very manageable level of debt and we have a history of generating strong free cash flow through a variety of economic conditions. The combination of Kimball International will further strengthen our cash flow, our reasonable leverage and cash generation will provide flexibility for the dynamic environment and continued investment. I'll now turn the call back over to Jeff.

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Thanks, Marshall. In summary, our second quarter results in Workplace Furnishings show the clear benefits of our profit transformation initiatives. And importantly, there are still many opportunities ahead. As we look through the remainder of the year, we expect continued year-over-year profit and margin improvement in workplace furnishings. The addition of Kimball International to HNI will strengthen our

business, and we are increasingly confident in the combination of strategic and financial benefits. KRI enhances our position to lead in the evolving workplace environment and provides new opportunities for profit growth. And we have confirmed at least \$25 million in annual synergies with a strong potential for more, none of which includes eliminating Poppin's \$20 million annual loss.

Finally, in Residential Building Products, we have demonstrated the ability to grow profit over the long term, and we'll continue to invest in our growth strategies even as we navigate near-term housing headwinds. The intermediate to long-term fundamentals of the housing market is strong, our market-leading brands, product depth and price point breadth uniquely position us to drive high-margin growth through category awareness and product innovation, all while we continue to leverage our owned installing distribution footprint.

In closing, our strategies are unchanged and gaining momentum. We will continue to expand margins in workplace furnishings, deliver value creation through the KRI combination and drive long-term revenue growth in residential building products. I would like to thank all our HNI members with the dedication and focus and continued effort as we pursue our strategies going forward. We'll now open the call to your questions.

Question and Answer

Operator

Thank you.

[Operator Instruction]

We'll take our first question from Greg Burns with SIDOTI.

Gregory Burns

Can you just talk about maybe the demand trends you're seeing in workplace furnishings, particularly the order trends you've seen since the end of the quarter? And are you seeing any improvement in maybe activity in the contract side of the business with maybe work from return to office trends improving or anything of that nature that might be driving demand for the Workplace Furnishings business?

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Yes, Greg. I'd say, since the start of the third quarter, we've seen solid positive orders in our Workplace Furnishing segment. Orders are running ahead of the first half rate, which was a 3% rate organically. So generally speaking, we're out of the blocks with some momentum. Activity is picking up on a pre-buy basis. So I'd say it's cautious, but we're liking how we started.

Gregory Burns

Okay. And then for the Residential Building Products segment, is there a target margin that you're targeting for that business with the savings? Or where do you think you could operate that business in the current demand mar--

Marshall H. Bridges

Senior VP & CFO

Yes, Greg, as you look at our seasonal profit pattern before the post-pandemic a couple of years there, the second quarter is always our lowest margin quarter. So we expect margins to increase from these levels due to natural seasonality. We also expect that the demand trends are improving. And then we got this additional support from these actions we just took. So when you look at back half margins, we expect them to be much better than we were in the second quarter. And we expect to get into that mid- to upper teens range.

Operator

All right. And we'll move on to our next question from Reuben Garner with Benchmark Company.

Reuben Garner

The Benchmark Company, LLC, Research Division

So I guess to start the margin performance in the legacy workplace segment was really impressive. Can you talk about what's kind of baked into the guide for the third quarter from a profitability standpoint in that segment? Any reason why you go backwards from the levels that you just put up? And I guess, we can start there and follow-up.

Marshall H. Bridges

Senior VP & CFO

Yes. Look, we're committed to expanding our margins and Workplace Furnishings, Ruben. If you look at the year-over-year improvement that we saw in the second quarter, roughly \$20 million year-over-year. We'd expect similar improvement, maybe slightly less. The slightly less probably has more to do with the variable comp difference from a year-over-year perspective, which is a little more challenging. But yes, we

don't intend to go backwards, although there may be some quarterly fluctuations, but the general trend should be upwards for a bit. Lots of opportunity ahead of us to continue to expand margins, not only this year but in years to come.

Reuben Garner

The Benchmark Company, LLC, Research Division

And the big step-up that we've seen is -- how much of that is -- is it pretty evenly divided price cost between the -- and the strategic initiatives that you've put in place over the last 9 to 12 months?

Marshall H. Bridges

Senior VP & CFO

Yes. Compared to the prior year, our total profit improvement really is driven by about \$25 million of price cost in the second quarter. We got about \$10 million of benefit from our cost savings program and then we picked up about \$11 million from just being more efficient in how we operate our business at the SG&A line, which kind of reflects our efforts to streamline things. So those are really what's driving it. And if you extrapolate that over to Workplace First, it's a pretty similar 4 drivers there, 3 drivers.

Reuben Garner

The Benchmark Company, LLC, Research Division

Okay. And then moving on to Poppin decision. Can you just talk about what kind of went into that? Is it just as simple as you guys maybe already have products or a way to serve that market? Was there just no path long term to kind of getting that business being profitable as the rest of your business? Any kind of background color you can just get for help?

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Yes. Reuben, it's a good question. I mean, as we pointed out, part of this is we've been streamlining our business for profit where we compete best in the most attractive markets. And we've rightsized our e-com business coming into this. We dispossessed our China business. And this is along the same lines we looked at it, and it's got a good brand. It's doing its thing, but it really frees up the strength and profitability of the core KII business. And so that was really the reason we did it. Is it kind of fits that bill like we've been managing the business to this point.

Marshall H. Bridges

Senior VP & CFO

And Ruben, I'd like to maybe point out that it also kind of reveals the value of our investment in KII. When you look at our multiple enterprise value divided by EBITDA, and you subtracted out the losses that Poppin had and add in the \$25 million of synergies that we expect and see potential for more. You're looking at a valuation multiple in the mid-5s, which we see is very attractive.

Reuben Garner

The Benchmark Company, LLC, Research Division

Very helpful. Last one for me. I'm going to sneak one more in. The residential building product outlook, we've seen new construction try and kind of stabilize or even improve over the last 3 to 6 months. Is the kind of near-term weakness you're still seeing into the third quarter, is that driven more by what you're seeing on the repair and remodel side of the equation?

Marshall H. Bridges

Senior VP & CFO

Yes. Ruben, we have seen the single-family permits trend a bit better here late in the second quarter. I mean, typically, we kind of see pretty good correlation between single-family permits in our activity 90 days later. So look at the first quarter, single-family permits were down 32%, kind in line with where we were in our second quarter. We did see single-family permits really get a lot less bad in June, but we think that's probably going to play out more in the fourth quarter than the third. And that's one of the reasons

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we're expecting our declines to moderate as we move into the back half. And if that trend continues, there is some benefit to what we projected some upside to it.

Reuben Garner

The Benchmark Company, LLC, Research Division

Okay. Great. Congrats again on the strong results and good luck.

Operator

We'll take our next question from Budd Bugatch with Water Tower Research.

Beryl Bugatch

Water Tower Research LLC

As well, I guess my first 2 questions are just going to follow up with some comments that Marshall or you and Jeff made. You said, I think, in RVP, you expect margins to get back to mid- to upper teens. Is that the second half of this year? Is it mid in the third quarter and upper teens in the fourth? Or is that a longer-term aspiration?

Marshall H. Bridges

Senior VP & CFO

No, that comment was meant to be for the full year 2023.

Beryl Bugatch

Water Tower Research LLC

Okay. For the full year, including the second quarter because those margins were a level I think they've been 6 years ago or so.

Marshall H. Bridges

Senior VP & CFO

Yes, we believe that we're going to see much margin improvement sequentially from the second quarter in this year.

Beryl Bugatch

Water Tower Research LLC

And the full year will be mid to upper teens?

Marshall H. Bridges

Senior VP & CFO

Yes. I mean we're talking in like 16%, 17% range.

Beryl Bugatch

Water Tower Research LLC

Okay. That's fine. And Jeff, you said out of the blocks, third quarter is better than the second quarter. Is that contract versus SMB? How do you characterize that?

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Yes. I think it's mostly SMB when you're comparing Q3 to out of the blocks to Q2. That's where the relative strength continues, Budd. Orders are still down year-over-year mid-single digits in contract, but the funnel continue to show -- is showing growth and activity metrics are picking up for sure.

Beryl Bugatch

Water Tower Research LLC

So comfort orders are still down year-over-year, but narrowing to getting close to breakeven?

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Yes. I would say that's a fair assessment, but it's a fair assessment for sure.

Beryl Bugatch

Water Tower Research LLC

Okay. And I don't want to beat this dead horse too much, but I see on some of the comments on social media kind of things, some raised eyebrows on the Poppin decision. Can you kind of maybe go over how that decision was made or when that decision was made? Was it made prior to the closing the acquisition? Or was it something you decided as you got deeper into it after the acquisition closed?

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Yes. But I mean, I don't know what -- I don't really follow a lot of social media, but I would tell you, it was made after and we take all this stuff very seriously, and we looked at it in the context of how we're managing the overall portfolio and business. And it kind of fell into that camp of streamlining our business to markets where we believe we have attractive long-term profitable growth prospects. And that really resulted in the decision, it's not much more complicated than that.

Beryl Bugatch

Water Tower Research LLC

Okay. That's fair. And the conditions of the sale agreement, you evidently must have found already buyer for? Are there any conditions that could cause that to go off the rails is there financing conditions or something like that, that could cause it to be delayed or deferred or canceled?

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

No, but we don't see that it's a pretty straightforward transaction.

Beryl Bugatch

Water Tower Research LLC

I got you. Okay. And I'm a little -- and this is my own failings. The accounting you've got it held for sale. Is there a reason why it's not disc-ops or how does that work Marshall? And...

Marshall H. Bridges

Senior VP & CFO

Yes. But it qualifies as held for sale. I would not qualify for discontinued ops, it's being sold. And you see it on the balance sheet there. There's another asset in our held-for-sale category as well as Poppin. So there's 2 things in there.

Beryl Bugatch

Water Tower Research LLC

I got you. And so -- okay. And tax rate for guidance, what are you looking for tax rate for the second half or the full year?

Marshall H. Bridges

Senior VP & CFO

For the full year, we expect non-GAAP tax, the effective tax rate to be close to 23%, will probably be closer to 22% in the third quarter, Budd. Different, right, because of the deductibility of some of the transaction expenses.

Beryl Bugatch

Water Tower Research LLC

Right. And is the amount that you're going to get from Poppin material, or is there a number that we can put into kind of a balance sheet? Or what do you expect on the sale?

Marshall H. Bridges

Senior VP & CFO

Well, it's all netted out, but the cash flow impact is pretty negligible. The price is a little over \$3 million that was all said and done is pretty negligible impact on our cash flows.

Beryl Bugatch

Water Tower Research LLC

Okay. And now I take it you priced it or you put on the book in a place where that will have no impact on either on GAAP earnings, I suspect.

Marshall H. Bridges

Senior VP & CFO

Correct. Yes. The opening balance sheet reflects that valuation.

Beryl Bugatch

Water Tower Research LLC

Got you. You made two other comments that I just want to make sure I understand. The private notes, you talked about what the leverage would be if you paid them off and you do have the capability of paying them off, are you going to pay it off? Is that decision just deferred? Or I'm not sure why you made the comment as you did, why you framed it.

Marshall H. Bridges

Senior VP & CFO

Yes. But we've raised that because it's better illustrative of sort of the financial flexibility we have because we could pay those off with very short notice. Those notes have attractive interest rates right now. So maybe not in our best interest at the very moment to pay them off, and it's not meant to be indicative of our plans to repay them, but it is meant to illustrate that we probably have even more financial flexibility than that 2.3x debt-to-EBITDA ratio would let it could really be 1.6 if we chose to repay those notes.

Beryl Bugatch

Water Tower Research LLC

Okay. And there's no prepayment title if you do pay them orally?

Marshall H. Bridges

Senior VP & CFO

Right now, the make whole on those is 0.

Beryl Bugatch

Water Tower Research LLC

Got you. Okay. And last for me, the variable comp issue you talked about normalization of variable comp, I take that to mean that you expect to have variable comp in this year and last year was reversed out. Is that the way to look and think about that?

Marshall H. Bridges

Senior VP & CFO

Yes. Third quarter of last year, we had quite a large reversal of an accrual that is not a repeat this year. You've chartered it correctly.

Beryl Bugatch*Water Tower Research LLC*

Got you. Thank you very much. I know it's a busy time there. So we do appreciate your commentary and best of wishes for the second half and for beyond.

Jeffrey D. Lorenger*Chairman of the Board, President & CEO*

Thanks, Budd.

Operator

We'll take our next question from Steven Ramsey with Thompson Research Group.

Steven Ramsey*Thompson Research Group, LLC*

Maybe to understand the SMB contract demand trends a little bit further. SMB is still outperforming. Is the gap between them expected to close meaningfully in the second half as contract trends improve? Or do you think SMB, the gap stays pretty wide even over the next 6-plus months?

Marshall H. Bridges*Senior VP & CFO*

Steven, yes, I think that gap is going to continue, maybe not as what it is right now or has been over the last year or 2, but it really reflects our position in the marketplace. It also reflects this migration to the smaller locations and just general higher return to office rates in those markets. So we feel very strong about our position and the strength of those markets.

Jeffrey D. Lorenger*Chairman of the Board, President & CEO*

Yes. I think that I concur, Steven. I would also say that like I've said, maybe to Greg or early on, that kind of across the board, we're out of the blocks in the third quarter on both SMB and contracts pretty nicely. Now look, I mean we've been through this before. So we'll stay cautious, but we are out of the box pretty well. So there could be some potential for a little bit of closing of the gap. But I would say, Marshall is accurate. SMB, the relative strength, we believe, will still be kind of a lead in those 2 segments.

Steven Ramsey*Thompson Research Group, LLC*

Got you. Okay. And then are delivery time lines of orders being placed for the Workplace segment, are those delivery time lines pretty normal now? Or are customers still deferring some of that delivery?

Jeffrey D. Lorenger*Chairman of the Board, President & CEO*

I think they're normal once they place the order. I mean, there's still a group of customers that continue to wring their hands and look and look at where the lease terms are expiring and try to figure out what their play is going to be, but those who have been spurred into activity, that group has looks like it's normalized.

Steven Ramsey*Thompson Research Group, LLC*

Okay. Helpful. And then definitely interesting color on legacy HNI margin being 300 bps lower than Kimball ex Poppin in the second quarter. Is there anything irregular there, the moves you're making in the legacy Workplace segment? Is that expected to close that margin gap into the high single-digit, low double-digit range, something that happens in the next 6 to 12 months?

Marshall H. Bridges

Senior VP & CFO

Steven, we're absolutely committed to expanding margins in our legacy Workplace Furnishings business. It's one of our core efforts. And as Jeff said in his prepared comments, we've got kind of a 4-point plan to make that happen. So as I said earlier, we're expecting continued margin expansion there. I don't know that our goal is to close the gap. We'd like to see margins expand in both KI and legacy HNI, but we certainly can improve margins in legacy HNI.

Steven Ramsey

Thompson Research Group, LLC

Okay. That's helpful, thank you.

Operator

We'll take the follow-up question from Budd Bugatch with Water Tower Research.

Beryl Bugatch

Water Tower Research LLC

I just wanted to go over a couple of other quick things. On the last 2 calls, if I remember correctly, you made points about the seasonality of earnings over the year. And I'm just curious if you had any expanded comment on that relationship I think of the story stay #4 this year.

Marshall H. Bridges

Senior VP & CFO

Yes. But I think we're expecting it to be in that range, the pre-2022 average is kind of 1/3 first half, 2/3 second half. And I think we're going to be relatively close to that this year.

Beryl Bugatch

Water Tower Research LLC

Okay. And last for me, in RVP, you talked a little bit of that some improvements seen. And I think previously said new housing was weaker than remodel retrofit. And I'm curious if you're seeing that improvement primarily coming out of new housing versus remodel retrofit and whether there's any color on the incidence of attachment, which has been an issue with new houses.

Marshall H. Bridges

Senior VP & CFO

We're seeing improvements in the order and projected revenue rates in both new construction, intermodal retrofit. Remodel retrofit was off more than you structured in the second quarter. And a lot of that had to do with this inventory correction that we saw is that the trade we underwent in the second quarter. Some of that will happen in the third. But if we get into the back half, that's going to be behind us, can help us see better rates there. New construction, as I said earlier, the single-family permit data the general new construction activity is trending better, and we're starting to see that flow through, although it's probably more of a fourth quarter phenomenon than a third quarter phenomenon.

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Well, I was just going to say, attachment rates are about where we've been running. I mean those are stable, and actually, we're focused on that as well. But those are holding up like they have been last couple of years.

Beryl Bugatch

Water Tower Research LLC

Yes. You've had some wonderful initiatives trying to get back to reverse the longer-term trend. And I'm curious whether or not we're seeing any of that bottoming and starting to maybe get to the bottom of the smile curve and back up the other side.

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Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Yes, I think we're clearly seeing that bottom, but -- so I think we're bullish on our ability to turn that given some early indications we have with our customer journey work and with our category expansions into electric, et cetera.

Beryl Bugatch

Water Tower Research LLC

Yes, I was wondering whether in fact it was coming primarily from electric or some of the other expansions.

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Yes. It's kind of across the board, actually. It's really category awareness and getting the homeowner and the homebuyer in their buying journey when making them aware of their options and educating them earlier in the process.

Beryl Bugatch

Water Tower Research LLC

Got you. It's a wonderful business. So the fact that you can expand, that would be great. Thank you.

Operator

And there are no further questions at this time. I'd like to turn the call back over to Mr. Lorenger for closing remarks.

Jeffrey D. Lorenger

Chairman of the Board, President & CEO

Great. Appreciate everyone's interest in HNI today. Thank you for joining us and having a dialogue. Have a great day.

Operator

And that concludes today's presentation. Thank you for your participation, and you may now disconnect.

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